

COMPLIANCE AUDIT

Mifflin County Regional Police Department Police Pension Plan

Mifflin County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2022

April 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Directors
Mifflin County Regional Police Department
Mifflin County
Lewistown, PA 17044

We have conducted a compliance audit of the Mifflin County Regional Police Department Police Pension Plan for the period January 1, 2019 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022 respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfers made during the audit period.

Mifflin County Regional Police Department contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the Mifflin County Regional Police Department's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Plan officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mifflin County Regional Police Department Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Mifflin County Regional Police Department Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

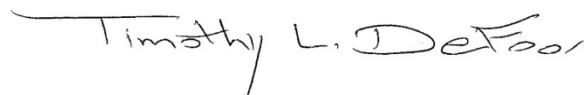
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inconsistent Pension Benefit

Finding No. 2 – Awarding Of Professional Services Contract Inconsistent With
Provisions Of Act 205

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by Mifflin County Regional Police Department officials. We are concerned by the Mifflin County Regional Police Department's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Mifflin County Regional Police Department and, where appropriate, their responses have been included in the report. We would like to thank regional officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
April 5, 2024

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a two percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Mifflin County Regional Police Department Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Mifflin County Regional Police Department Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2001-5, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between Mifflin County Regional Police Department Board of Directors and the police officers. The plan was established April 9, 1973. Active members are required to contribute five percent of compensation to the plan. As of December 31, 2022, the plan had 15 active members, 1 terminated member eligible for vested benefits in the future, and 26 retirees receiving pension benefits from the plan.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT
POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Mifflin County Regional Police Department has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefit

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT
POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

Condition: As disclosed in the prior audit report, The pension plan’s governing document, Resolution No. 2001-5, as amended, contains a benefit provision that conflicts with the collective bargaining agreement between the police association and the regional police department board of directors, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal Retirement Benefit	Seventy percent (70%) of the average monthly salary which he was paid during his last 36 months of service in the Police Department...	An officer shall receive a monthly pension benefit calculated at 70% of his or her final average salary. Any officer hired after January 1, 2015 and upon the completion of 25 years of service and attaining age 50 shall receive a monthly pension benefit calculated at 50% of his or her final average salary.

In addition, the Act 205 Actuarial Valuation Reports, for the police pension plan, with a valuation date January 1, 2019, and January 1, 2021, reported the benefit provisions included in the collective bargaining agreement.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Regional officials again failed to update the plan’s governing document to reflect the most current benefit structure negotiated through collective bargaining and ensure compliance with the prior recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT
POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Condition: In 2020, the regional board of directors changed investment and advisory services contractors for its police pension plan and later changed the plan custodians during 2021. However, there was no substantive evidence provided to support that these changes were conducted in accordance with provisions of Act 205 and/or the changes were properly authorized/approved by the regional board of directors.

Criteria: Section 701-A of Act 205, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f), and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT
POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon the advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Furthermore, Resolution No. 2015-2, adopted by the Board of Directors on June 11, 2015, established procedures for the procurement of professional services for the municipal pension system in accordance with Act 205 provisions.

Cause: Regional officials failed to properly follow and document adherence with requirements prescribed under the provisions of Act 205 and the regional police department's own procurement procedures in the awarding of the professional services contract for the investment and advisory services for the police pension plan.

Effect: We were unable to determine whether the regional board of directors complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures for the procuring of professional investment and advisory services for the police pension plan. Also, by failing to maintain appropriate substantive supporting documentation evidencing adherence with each requirement prescribed under Act 205 and the board's procedures in the awarding of the professional services contract, it denotes a lack of transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contract and custodian for the police pension plan.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT
POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend the plan officials follow procedures developed and implemented by the regional in Resolution No. 2015-2 for the procurement of professional services for the police pension plan and ensure compliance with Act 205 provisions while maintaining appropriate and sufficient supporting documentation. This documentation should evidence every phase of the process in accordance with the regional’s policies and procedures in the awarding of future professional services contracts for the police pension plan.

In addition, since we were unable to conclude whether the regional complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures relative to the procurement of the professional investment and advisory services, awarded in 2020, and custodial services, awarded in 2021, for the police pension plan, we recommend that plan officials, collectively review the process and familiarize themselves with the procedures enacted by the regional board of directors while closely examining and identifying ways to improve the process as a whole, thus ensuring transparency for plan members and the avoidance of any confusion pertaining to the proper administration of the regional’s police pension plan.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$8,862,891	\$ 10,142,644	\$ 1,279,753	87.4%
01-01-19	8,775,188	10,910,574	2,135,386	80.4%
01-01-21	9,175,612	11,170,854	1,995,242	82.1%

Note: The market values of the plan's assets at (01-01-17, 01-01-19, and 01-01-21) have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	\$ 216,809	100.0%
2018	219,753	100.0%
2019	278,319	100.0%
2020	293,794	100.0%
2021	497,012	100.0%
2022	487,547	100.0%

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8
Asset valuation method	5-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%

MIFFLIN COUNTY REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Brian Glick
Chairman, Board of Directors

Mr. Ronald Mapikoski
Vice-Chairman, Board of Directors

Mr. Andre French
Chief Administrative Officer

Mr. Jalon Zook
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